Financial Statements,
Required Supplementary Information and
Report on Internal Control and Compliance

Federated States of Micronesia Telecommunication Regulation Authority

(A Component Unit of the Federated States of Micronesia National Government)

Years ended September 30, 2025 and 2024
with Report of Independent Auditors



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Federated States of Micronesia
Telecommunication Regulation Authority
(A Component Unit of the Federated States of Micronesia National Government)

Financial Statements, Required Supplementary Information and
Report on Internal Control and Compliance

Years ended September 30, 2025 and 2024

Contents

Report of Independent Auditors....1

Management's Discussion and Analysis....4

Audited Financial Statements

Statements of Net Position....7
Statements of Revenues, Expenses, and Changes in Net Position....8
Statements of Cash Flows....9
Notes to Financial Statements....10

Report on Internal Control and Compliance

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*....18

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Report of Independent Auditors

The Board of Directors
Federated States of Micronesia Telecommunication Regulation Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, as of and for the years ended September 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the FSM Telecommunication Regulation Authority as of September 30, 2025 and 2024, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2026, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst & Young LLP

October 30, 2026

Federated States of Micronesia
Telecommunication Regulation Authority
(A Component Unit of the Federated States of Micronesia National Government)

Management's Discussion and Analysis

Years ended September 30, 2025 and 2024

The following Discussion and Analysis of the Telecommunication Regulation Authority (TRA) is to provide an introduction and understanding of the basic financial statements of TRA for the fiscal year ended September 30, 2025. This discussion has been prepared by management and should be read in conjunction with the financial statements.

This annual report consists of two parts:

1. Management's Discussion and Analysis
2. Basic Financial Statements

The basic financial statements include the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows. For TRA activities, these statements tell how these services were financed during fiscal year 2025.

TRA was created under Public Law 18-52 in 2014 and its primary responsibilities are:

1. To establish the Rules & Regulations and promote the fair competition among the operators.
2. To evaluate and issue the telecommunication operator's licenses.
3. To coordinate and regulate the Interconnections among the operators.
4. Responsible for Spectrum Management and issue spectrum licenses.
5. To monitor the Quality Service by the operators.

During fiscal year 2018, the financial activities of TRA were part of the Department of Transportation, Communications & Infrastructure and accounting of services was done at the Department of Finance and Administration. It should be noted that the value of the contributed fixed assets in 2018 was treated as a 2019 equity contribution of the FSM National Government.

Expenditures associated with the funds received from World Bank pay for contractual services provided to TRA.

The following table summarizes the financial condition of TRA for the years ended September 30, 2025, 2024 and 2023:

	2025	2024	2023
Cash	$159,707	$ 71,834	$ 87,845
Accounts receivable	29,572	36,461	12,855
Prepaid expense	8,732	7,358	---
Capital assets, net of accumulated depreciation	17,017	15,466	23,275
Lease asset	27,691	10,095	27,401
Total Assets	$242,719	$141,214	$151,376

Management's Discussion and Analysis, continued

	2025	2024	2023
Liabilities	$ 65,598	$ 47,757	$ 42,689
Net position	177,121	93,457	108,687
Total Liabilities and Net Position	$242,719	$141,214	$151,376
Revenues	$327,176	$316,537	$314,064
Contributed revenues	328,145	158,884	1,760
Other income	---	---	10
Interest expense, net	(457)	(811)	(450)
Operating expenses	(571,200)	(489,840)	(410,693)
Change in net position	$ 83,664	$(15,230)	$(95,309)

Total operating revenues for FY2025 were $327,176, reflecting an increase of 3.4% compared with $316,537 in FY2024. Total operating expenses increased by 16.6%, from $489,840 in FY2024 to $571,200 in FY2025.

The increase in operating expenses was primarily attributable to consultancy expenses, which rose by 28.0% from $245,087 in FY2024 to $313,784 in FY2025, an increase of $68,697. Management associates these expenditures with major work programs undertaken during FY2025, including continued work on interconnection and access, strengthening TRA's regulatory capacity and policies, and furthering compliance relations with operators.

Although the TRA recorded an operating loss of $244,024 in FY2025, World Bank contributions of $328,145 recognized as nonoperating revenue helped offset this loss. Including net interest expense, the TRA reported a positive change in net position of $83,664 for FY2025, compared with a loss of $15,230 in FY2024.

One of the objectives of the TRA is to promote the entry of new licensees, fostering investment and innovation in communications networks and services. In FY2025, the TRA continued to pursue this objective, and there was further increased interest from international and regional telecommunications providers in entering the FSM. Beyond expressions of interest, the TRA held meetings with prospective entrants and responded to formal inquiries received during the year.

The new providers licensed in FY2024, satellite Internet Service Provider (ISP) Starlink, and local ISPs iSolutions Micronesia and FSMtech, commenced operations during the period.

At a broader market level, the TRA observed a continuing shift in consumer usage. This movement has been supportive of the revenue base on which the TRA's regulatory fees are assessed, while also broadening the range of services and providers the TRA is required to regulate. Management will continue to monitor the effect of this shift on both revenues and the cost of regulation.

A significant organizational development during FY2025 was the appointment of the TRA's Deputy Chief Executive. The TRA anticipates filling two further positions during FY2026 in order to build the internal capacity required to meet its expanding regulatory workload.

Looking ahead, the TRA anticipates receiving at least one application for entry during FY2026 from the international providers with which it has been in discussion. Management also notes that the TRA's World Bank funding is scheduled to conclude in March 2027, and financial planning will be adjusted accordingly as that date approaches.

Management's Discussion and Analysis for the year ended September 30, 2024 is set forth in the Authority's report on the audit of financial statements, which is dated September 30, 2025. That Discussion and Analysis explains the major factors impacting the 2024 financial statements and can be viewed at TRA's website at www.tra.fm or Office of the National Public Auditor's website at www.fsmopa.fm.

Financial Contact

This financial report is designed to provide all interested users with a general overview of the Federated States of Micronesia Telecommunication Regulation Authority. If you have questions about this report or need additional financial information, please contact Takuro Akinaga, Chief Executive at email address takuro.akinaga@tra.fm or please write to us at P.O. Box 1919, Kolonia, Pohnpei FM 96941.

Federated States of Micronesia
Telecommunication Regulation Authority
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Net Position

	September 30, 2025	2024
ASSETS		
Cash	$159,707	$ 71,834
Accounts receivable	29,572	36,461
Prepaid expense	8,732	7,358
Total current assets	198,011	115,653
Depreciable capital assets, net	17,017	15,466
Lease asset, net	27,691	10,095
Total assets	$242,719	$141,214
LIABILITIES AND NET POSITION		
Accounts payable	$ 29,486	$ 30,885
Other accrued liabilities	8,318	6,515
Lease liability	17,399	10,357
Total current liabilities	55,203	47,757
Lease liability, non-current	10,395	---
Total liabilities	65,598	47,757
Commitments and contingencies		
Net investment in capital assets	17,017	15,466
Unrestricted	160,104	77,991
Total net position	177,121	93,457
Total liabilities and net position	$242,719	$141,214

See accompanying notes.

Federated States of Micronesia
Telecommunication Regulation Authority
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Revenues, Expenses, and Changes in Net Position

	Year ended September 30, 2025	2024
Total operating revenues	$327,176	$316,537
Operating expenses		
Consultancy	313,784	245,087
Payroll related	153,757	142,567
Travel	57,485	49,919
Lease	17,382	17,305
Depreciation	5,144	7,810
Utilities	1,668	2,159
Telecommunication	1,607	1,540
Miscellaneous	20,373	23,453
Total operating expenses	571,200	489,840
Loss from operations	(244,024)	(173,303)
Non-operating revenues (expenses)		
World Bank contributions	328,145	158,884
Interest expense, net	(457)	(811)
Non-operating revenues, net	327,688	158,073
Change in net position	83,664	(15,230)
Net position at beginning of year	93,457	108,687
Net position at end of year	$177,121	$ 93,457

See accompanying notes.

Federated States of Micronesia
Telecommunication Regulation Authority
(A Component Unit of the Federated States of Micronesia National Government)

Statements of Cash Flows

	Year ended September 30, 2025	2024
Cash flows from operating activities		
Cash received from customers	$334,065	$292,931
Cash paid to suppliers for goods and services	(413,887)	(325,265)
Cash paid to employees	(153,757)	(142,567)
Net cash used in operating activities	(233,579)	(174,901)
Cash flows from investing activities		
Interest received on interest bearing deposits	2	6
Additions to property, plant and equipment	(6,695)	---
Net cash (used in) provided by investing activities	(6,693)	6
Cash flows from noncapital financing activities:		
Operating subsidy received from World Bank	328,145	158,884
Net change in cash and cash equivalents	87,873	(16,011)
Cash and cash equivalents at beginning of year	71,834	87,845
Cash and cash equivalents at end of year	$159,707	$ 71,834
Reconciliation of loss from operations to net cash used in operating activities		
Loss from operations	$(244,024)	$(173,303)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	5,144	7,810
Noncash operating lease expense	17,382	17,305
Interest expense	(459)	(817)
Decrease (increase) in assets:		
Accounts receivable	6,889	(23,606)
Prepaid expense	(1,374)	(7,358)
(Decrease) increase in liabilities:		
Accounts payable	(1,399)	22,443
Other accrued liabilities	1,803	(192)
Lease liability	(17,541)	(17,183)
Net cash used in operating activities	$(233,579)	$(174,901)
Supplementary disclosure of noncash investing and financing activities		
Initial recognition of right-of-use lease asset	$ 34,978	$ ---
Initial recognition of lease liability	$(34,978)	$ ---

See accompanying notes.

1. Organization

The Federated States of Micronesia Telecommunication (FSM) Regulation Authority (the Authority or "TRA"), a component unit of the FSM National Government, is a regulatory body governing telecommunication services in the FSM.

The Authority was established as a public corporation under Public Law 18-52, the purpose of which is to be the regulator charged with setting standards and guidelines in enhancing access to and affordability of telecommunication services in the Federated States of Micronesia. The Authority is governed by a Chief Executive and two members, all appointed by the President of the FSM with the advice and consent of the FSM Congress.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Authority maintains a chart of accounts in accordance with accounting principles generally accepted in the United States of America (GAAP). Additionally, the Authority utilizes the accrual basis of accounting.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Net investment in capital assets* - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted* - net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. At September 30, 2025 and 2024, the Authority does not report any restricted net position.

- *Unrestricted* - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

2. Summary of Significant Accounting Policies, continued

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in bank demand deposit and saving accounts.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk.

As of September 30, 2025 and 2024, the cash balance was $159,707 and $71,834, respectively, and the corresponding bank balance was $159,727 and $75,967, respectively, which are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2025 and 2024, bank deposits were fully subject to the FDIC insurance coverage limit.

Accounts Receivable

Accounts receivable are primarily reimbursements due from the FSM National Government Department of Finance and Administration for the World Bank contributions, stated at the amount management expects to collect on outstanding balances.

Capital Assets

Capital assets are stated at cost. The Authority capitalizes buildings, land improvements and equipment that have a cost of $150 or more and an estimated useful life of at least two years. The cost of maintenance and repairs is charged to operating expenses. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

2. Summary of Significant Accounting Policies, continued

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Authority has no items that qualify for reporting in this category.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused annual and sick leave benefits. The cost of annual leave is based on employees' salary rates at the end of the fiscal year (September 30). The cost of sick leave is recorded based on estimated future use using the FIFO (first in, first out) method, based on historical usage.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Authority has no items that qualify for reporting in this category.

Income Taxes

The Authority is specifically exempt from FSM Corporate and gross receipts taxes in accordance with its enabling legislation.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide services as required in its enabling legislation. Non-operating revenues and expenses result from capital; financing and investing activities, costs and related recoveries from natural disasters, operating grants, and certain other non-recurring income and costs.

Revenue Recognition

The Authority primarily earns revenue through assessments of license application fees, license renewal fees and annual fees by licensees. During the years ended September 30, 2025 and 2024, operating revenues were primarily earned from the FSM Telecommunications Corporation (FSMTC), a component unit of the FSM National Government at 94% and 93% of total operating revenues, respectively.

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. The implementation of GASB Statement No. 101 for the year ended September 30, 2025 did not have a material effect on the accompanying financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The implementation of GASB Statement No. 102 for the year ended September 30, 2025 did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.

A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. GASB Statement No. 105 will be effective for fiscal year ending September 30, 2027.

The Authority is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

3. Grants and Subsidies

The Authority may receive grants from the United States Government or other foreign governments or organizations either as a direct recipient or as a sub-recipient from the FSM National Government. During the years ended September 30, 2025 and 2024, the Authority received $328,145 and $158,884, respectively, in contributions from the World Bank, through the FSM National Government, primarily to fund consultancy costs.

4. Capital Assets

Capital asset activities of the Authority for the years ended September 30, 2025 and 2024, are as follows:

	Estimated Useful Lives	Balance October 1, 2024	Additions	Disposals	Balance September 30, 2025
Furniture and fixtures	5-7 years	$ 9,972	$ ---	$ ---	$ 9,972
Equipment	2-10 years	27,877	---	---	27,877
Vehicles	3-5 years	14,500	---	---	14,500
Computer, hardware and software	2-5 years	21,907	6,695	---	28,602
Total depreciable capital assets		74,256	6,695	---	80,951
Less accumulated depreciation		(58,790)	(5,144)	---	(63,934)
Total depreciable capital assets, net		15,466	1,551	---	17,017
Lease asset – office spaces		34,612	34,978	(34,612)	34,978
Less accumulated amortization		(24,517)	(17,382)	34,612	(7,287)
Total lease asset, net		10,095	17,596	---	27,691
Grand Total		$25,561	$19,147	$ ---	$44,708

4. Capital Assets, continued

	Estimated Useful Lives	Balance October 1, 2023	Additions	Disposals	Balance September 30, 2024
Furniture and fixtures	5-7 years	$ 9,972	$ ---	$ ---	$ 9,972
Equipment	2-10 years	27,877	---	---	27,877
Vehicles	3-5 years	14,500	---	---	14,500
Computer, hardware and software	2-5 years	21,907	---	---	21,907
Total depreciable capital assets		74,256	---	---	74,256
Less accumulated depreciation		(50,980)	(7,810)	---	(58,790)
Total depreciable capital assets, net		23,276	(7,810)	---	15,466
Lease asset – office spaces		34,612	---	---	34,612
Less accumulated amortization		(7,212)	(17,305)	---	(24,517)
Total lease asset, net		27,400	(17,305)	---	10,095
Grand Total		$50,676	$(25,115)	$ ---	$25,561

5. Commitments and Contingencies

Leases

The Authority entered into an office lease effective May 1, 2023, with a two-year term and fixed monthly lease payments of $1,500. On April 17, 2025, the lease was renewed for an additional two years, extending the term through April 30, 2027. The Authority used incremental borrowing rates of 3.03% and 4.14% in measuring lease liabilities in 2025 and 2024, respectively, as the interest rates implicit in the leases were not readily determinable.

Future minimum annual rent payments at September 30, 2025 are as follows:

Year ending September 30,	
2026	$18,000
2027	10,500
	28,500
Payment relating to interest	(706)
	$27,794

5. Commitments and Contingencies, continued

Self-Insurance

The Authority purchases insurance to cover risks associated with its vehicles. There have been no significant reductions in coverage, and there have been no settlements in excess of insurance coverage occurred during the years ended September 30, 2025 and 2024.

Litigation

In the ordinary course of business, claims may be filed against the Authority. Management has represented that no losses have been filed or are expected to be filed for the Authority's activities for the years ended September 30, 2025 and 2024.

Shape the future
with confidence

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Federated States of Micronesia Telecommunication Regulation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards)*, the financial statements of Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, which comprise the statement of net position as of September 30, 2025, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"), and have issued our report thereon dated October 30, 2026.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A member firm of Ernst & Young Global Limited

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 30, 2026